

## Message Text

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R 221135Z SEP 76

FM AMCONSUL ASMARA

TO SECSTATE WASHDC 4142

AMEMBASSY ADDIS ABABA

INFO AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY MOGADISCIO

CINCUSNAVEUR LONDON

COMNAVTELCOM WASHDC

USCINCEUR VAIHINGEN

COMIDEASTFOR

NAVCOMMUNIT ASMARA

NAVCOMMSTA NEA MAKRI

CNO WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 ASMARA 0740

E.O. 11652: GDS

TAGS: EGEN, EAGR, ETRN, EFIN, ETRD, ET

SUBJECT: ECONOMIC REVIEW OF THE ERITREAN ECOMONY - 1976

REF: (A) 75 ASMARA 0748 (DTG 030845Z SEP 75, (B) ASMARA 0024

(DTG 121105Z JAN 76, (C) ASMARA 0633 (DTG 111330Z AUG 76,

(D) ASMARA 0699 (DTG 080620Z SEP 76)

1. SUMMARY: ALTHOUGH THE MILITARY SITUATION IN ERITREA HAS STABIL-  
IZED CONSIDERABLY SINCE THE LAST ANNUAL ECONOMIC SURVEY (REF A),  
THERE HAS BEEN NO APPRECIABLE IMPROVEMENT IN THE OVERALL ECONOMIC  
SITUATION AND MARKED DECLINES IN SEVERAL SECTORS, AS THE IMPACT  
OF THE DISRUPTION OF THE TRANSPORTATION SYSTEM TAKES ITS TOLL.  
COMMERCIAL AND EXPORT PRODUCTION FROM AGRICULTURAL ESTATES HAS

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COME TO A VIRTUAL HALT, AS FIELDS LAY FALLOW OR ARE TURNED TO

SUBSISTENCE AGRICULTURE AND AS BACKLOGS BUILD UP FOR LACK OF TRANSPORTATION, WHILE FOREIGN CONSUMERS SHIFT TO OTHER SOURCES. INDUSTRY CONTINUES TO FUNCTION DESPITE INCREASINGLY FREQUENT DISRUPTIONS DUE TO PRODUCTION AND MARKETING DIFFICULTIES. WHILE OPERATING INDUSTRIAL PLANTS CONTINUE TO MAINTAIN EMPLOYMENT IN THE FACE OF DECLINING PRODUCTION, SEVERAL MORE PLANTS HAVE CLOSED OR SUSPENDED OPERATION DURING THE LAST YEAR. TRANSPORTATION REMAINS THE MOST VULNERABLE ELEMENT IN THE ECONOMIC STRUCTURE AS ROAD CONVOYS BECOME LESS AND LESS FREQUENT, AND WHILE THE ALTERNATIVE OF COASTAL SEA TRANSPORT IS YET TO BE EFFECTIVELY EXPLOITED. BANKING ACTIVITY HAS SHOWN SOME IMPROVEMENT, BUT CAPITAL IS STILL UNDERUTILIZED. PRICES ARE GENERALLY HIGHER, BUT HAVE BECOME MORE STABLE DURING THE REPORTING PERIOD. WHILE RECENT AND RELIABLE STATISTICS DEMONSTRATING THE DOWNTURN IN THE EXTERNAL SECTOR ARE NOT AVAILABLE, IT IS KNOWN THAT BOTH EXPORTS AND IMPORTS HAVE CONTINUED A PRECIPITIOUS DECLINE. END SUMMARY.

2. AGRICULTURE: AS HAD BEEN ANTICIPATED, EXPORT AND COMMERCIAL AGRICULTURE IN ERITREA HAVE COME TO VIRTUAL HALT. FRUIT AND VEGETABLE PRODUCTION IN GHINDA AND ELABERET (NEAR KEREN) WAS MINIMAL AS A MUCH INFERIOR PRODUCT OCCASIONALLY TRICKLED INTO THE ASMARA MARKET. BANANA PRODUCTION IN AGORDAT IS MORIBUND, THE PLANTATION BEING LARGELY ABANDONED. OILSEED PRODUCTION IN HUMERA (IN BEGEMDIR ON THE ERITREAN BORDER) WAS DOWN 73 PERCENT FROM THE PRECEDING YEAR; 65,000 MT IN 1974/75 AND 17,000 MT IN 1975/76. AS HUNERA PROVIDES ABOUT 80 PERCENT OF ETHIOPIAN OILSEED PRODUCTION, THIS WILL BE REFLECTED BY A MARKED DECLINE IN OILSEED EXPORTS, THE NATION'S THIRD LARGEST EXPORT COMMODITY. COTTON CULTIVATION AT THE BARATTOLO PLANTATION IN TESSENNEY IS APPROXIMATELY THE SAME AS IN THE YEAR DESPITE SETBACKS DUE TO THE THEFT AND DESTRUCTION OF MACHINERY BY THE INSURGENTS. IT IS APPARENT THAT THE REBELS DO NOT WISH TO DESTROY THE VULNERABLE TESSENNEY PLANTATION THE INSURGENTS REALIZE NOW THAT THEY CAN DISRUPT BARATTOLO TEXTILE PRODUCTION BY PREVENTING THE RAW COTTON FROM REACHING THE ASMARA FACTORY. MOST CANDID AGRICULTURAL EXPERTS ADMIT THAT THE 1976-77 HARVEST OF COMMERCIAL AND EXPORT AGRICULTURE WILL BE WELL BELOW THE PRECEDING YEAR. EPMG MILITARY AUTHORITIES APPARENTLY HAVE NO PLANS TO EITHER IMPROVE THE TRANSPORTATION SITUATION OR TO DEVOTE FORCES TO SECURING OUTLYING PLANTATIONS. THE HARVEST OF SUBSISTENCE AGRICULTURE, HOWEVER, IS EXPECTED TO BE RATHER GOOD BECAUSE OF FAVORABLE WEATHER AND

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THE SHIFT AWAY FROM COMMERCIAL PRODUCTION.

3. INDUSTRY AND EMPLOYMENT: AN ANALYSIS OF THE MOST RECENT AVAILABLE PRODUCTION STATISTICS INDICATES THAT PRIOR TO THE INTENSIFICATION OF THE INSURGENCY IN EARLY 1975, ERITREA CONTRIBUTED SOME 20 PERCENT OF ETHIOPIA'S INDUSTRIAL PRODUCTION. CURRENT PRODUCTION STATISTICS, IF EXTANT, ARE CLOSELY HELD, BUT IT IS KNOWN THAT PRODUCTION IS OFF SUBSTANTIALLY IN VIRTUALLY EVERY INDUSTRY. THE ASMARA CHAMBER OF COMMERCE HAS PROVIDED PARTIAL

LIST OF INDUSTRIAL PLANTS CLOSED SINCE EARLY 1975. IT LISTS 17 DIVERSE PLANTS EMPLOYING 1255 WORKERS, WHICH HAVE CLOSED BECAUSE OF CONDITIONS CREATED BY THE INSURGENCY. IN ADDITION, IT IS KNOWN THAT THREE MEAT PACKERS EMPLOYING A TOTAL OF 927 EMPLOYEES HAVE SUSPENDED OPERATION FOR LACK OF CATTLE, ETHIO FABRICS (600 WORKERS) AND COCA COLA (80 WORKERS) HAVE BEEN CLOSED BY INSURGENT SABOTAGE. THE LARGEST FACTORY IN ERITREA, BARATTOLO, WITH SOME 2500 WORKERS HAS BEEN TEMPORARILY CLOSED FOR LACK OF RAW COTTON (REF D). AS HAS BEEN THE CASE SINCE EARLY 1975, THE PROBLEMS IN THE IDISTRIAL SECTOR REVOLVE AROUND MARKETING AND RAW MATERIALS, WHICH IN TURN IS A RESULT OF TRANSPORTATION PROBLEMS. THE BULK OF ERITREAN INDUSTRIAL PRODUCTION HAS TRADITIONALLY BEEN MARKETED IN THE REST OF ETHIOPIA, A SYSTEM WHICH IS NOW TENUOUS AND UNCERTAIN. MUCH OF THE RAW MATERIALS CAME FROM RURAL AREAS OF ERITREA WHICH IS VIRTUALLY CLOSED TO THE EPMG. THOSE RAW MATERIALS WHICH ARE IMPORTED FROM ABROAD CONTINUE TO ARRIVE IN REDUCED AMOUNTS AS PRODUCERS REACT TO THE RESTRICTION OF MARKET OPPORTUNITIES. THE SINGLE MOST NOTABLE FACT ABOUT ASMARA'S INDUSTRY IS THAT IT CONTINUES TO FUNCTION AT ALL (REF B). THE EPMG IS DETERMINED TO MAINTAIN MAXIMAL EMPLOYMENT DESPITE PRODUCTION DECLINES IN ORDER TO DENY THE INSURGENTS THE OPPORTUNITY TO RECRUIT THE UNEMPLOYED. THIS SITUATION INEVITABLY ENTAILS A BURGEONING EXPENSE TO THE GOVERNMENT WHICH IS THE PROPRIETOR OF THE NOW-NATIONALIZED INDUSTRIAL SECTOR. THIS EXPENSE APPEARS ACCEPTABLE ON A MILITARY LEVEL, BUT ON AN ECONOMIC LEVEL IT IMPOSES A SEVERE BURDEN.

4. TRANSPORTATION: TRANSPORTATION REMAINS THE MOST CRITICAL AND MOST VULNERABLE ELEMENT IN THE ECONOMIC PICTURE IN ERITREA (REF C). THE INSURGENTS HAVE NOT TRIED TO DAMAGE SERIOUSLY THE ROAD NETWORK IN ERITREA. ALMOST ALL BRIDGES, CULVERTS AND

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FM AMCONSUL ASMARA  
TO SECSTATE WASHDC 4143  
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INFO AMEMBASSY KHARTOUM  
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COMIDEASTFOR  
NAVCOMMUNIT ASMARA  
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OTHER CRITICAL POINTS REMAIN INTACT. HOWEVER, THROUGH CONTINUOUS HARRASSMENT OF ESCORTED CONVOYS, THEY APPEAR TO HAVE SAPPED EPMG TROOP ENTHUSIASM FOR CONVOY DUTY. THE GRADUAL PROCESS OF GRINDING DOWN MORALE COMBINED WITH THE DISRUPTIONS CAUSED BY THE ABORTIVE "PEASANT MARCH" IN MAY AND JUNE HAVE BY NOW SIGNIFICANTLY RESTRICTED LAND TRANSPORTATION. THE FAILURE OF THE "PEASANT MARCH" FURTHER EMBOLDENED ERITREAN INSURGENTS TO PENETRATE INTO NORTHERN TIGRE, THUS RENDERING THE ROAD BETWEEN ADIGRAT AND ADWA THE MOST HAZARDOUS SECTION OF THE ROUTE FROM ASMARA TO ADDIS. IN LATE AUGUST THE LAST CONVOY FROM THE SOUTH ARRIVED IN ASMARA. IT BROUGHT WITH IT ONLY MILITARY SUPPLIES ACROSS THE ADIGRAT-ADWA STRETCH, AND THEN PICKED UP CIVILIAN TRUCKS AT ADWA WHICH HAD TRAVELLED NORTH VIA  
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GONDAR. IT CAN BE EXPECTED THAT THIS LATTER ROUTE WILL SEE MORE FREQUENT USE. THERE HAS NOT BEEN A CONVOY TO KEREN AND THE WESTERN LOWLANDS SINCE MAY, AND THE LAST EASTBOUND CONVOY ARRIVED IN APRIL. AN EASTBOUND CONVOY BRINGING 200 TRUCKLOADS OF COTTON TO BARATTOLO IS REPORTED TO BE HALTED IN BARENTU AFTER SOME TWO WEEKS ON THE ROAD. THE MASSAWA-ASMARA CONVOYS ARE OPERATING WITH ONLY MINOR DISRUPTIONS. THIS RAISES THE QUESTION OF WHY THE EPMG HAS NOT USED THE COASTAL ROUTE FROM ASSAB TO ASMARA TO BRING RAW MATERIALS AND CONSUMER GOODS INTO ASMARA, AND TO TAKE OUT FINISHED PRODUCTS. TO DATE, ONLY MINIMAL USE HAS BEEN MADE OF THIS ALTERNATIVE. TWO EXPLANATIONS SEEM CREDIBLE, (1) THE EPMG DOES NOT WISH TO ADMIT THAT IT CANNOT TRANSPORT MATERIALS OVERLAND INTO ERITREA, OR (2) THEY FEAR INCREASED USE OF THE MASSAWA-ASMARA ROUTE MAY RESULT IN GREATER INSURGENT EFFORT TO SEVER THAT CIRCUITOUS AND VULNERABLE ROAD.

5. BANKING AND PRICES: BANKERS IN ASMARA, FEARFUL FOR THEIR POSITIONS, ARE UNWILLING TO ADMIT THAT THE INSURGENT SITUATION HAS HAD ANY SIGNIFICANT EFFECT UPON THEIR BUSINESS. THEY CLAIM, PROBABLY

WITH SOME JUSTIFICATION, THAT SINCE THE HEAVY FIGHTING IN EARLY 1975, CONFIDENCE HAS BEEN RESTORED AND SAVINGS ARE AGAIN ON THE RISE. ON THE INVESTMENT SIDE, HOWEVER, THERE IS ALMOST NO CONSTRUCTION TO BE FINANCED AND THERE HAS BEEN NO APPRECIABLE EXPANSION OF INDUSTRY OR AGRICULTURE. MOST LOANS HAVE BEEN SHORT-TERM FINANCING OF RAW MATERIALS AND CONSUMER COMMODITIES, AND THERE APPEARS TO HAVE BEEN SOME UPTURN IN THIS SECTOR AS THE SITUATION HAS STABILIZED SINCE THIS TIME LAST YEAR. PRICES OF CONSUMER ITEMS HAVE FLUCTUATED WITH THE SHORTAGES CAUSED BY TRANSPORTATION PROBLEMS. FOR MOST COMMODITIES, PRICES ARE UP FROM SEPTEMBER 1975, BUT ASMARA HAS NOT WITNESSED THE QUANTUM JUMPS WHICH FOLLOWED THE SERIOUS DISRUPTIONS OF 1975. UNREALISTIC PRICE CONTROL MEASURES HAVE BEEN LARGELY IGNORED OR CIRCUMVENTED, DESPITE EFFORTS OF MERCHANTS AND OFFICIALS TO BRING THEM INTO LINE WITH REALITY. STAPLE GRAINS, TEFF, WHEAT, BARLEY, DURRA AND CORN, WHEN AVAILABLE, ARE UP FROM 15 TO 25 PERCENT FROM LAST YEAR. BEEF OF VARYING QUALITY IS AVAILABLE AT PRICES 60 PERCENT HIGHER THAN THE CONTROLLED PRICE. LAMB IS AVAILABLE IN MODERATE QUANTITY, BUT AT APPRECIABLY HIGHER PRICES THAN MOST FORMER CONSUMERS CAN AFFORD. HIGHER PRICES HAVE CAUSED CITY DWELLERS IN ERITREA TO ALTER THEIR DIETS TO LARGELY GRAIN AND VEGETABLES, WITH MEAT RESERVED FOR HOLIDAY FEASTING.

6. EXTERNAL SECTOR: THE PERCENTAGE OF TOTAL ETHIOPIAN EXPORTS FINANCED BY THE ASMARA BRANCH OF THE NATIONAL BANK DECLINED FROM

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50.7 PERCENT IN 1974 TO 33.2 PERCENT IN 1975. DESPITE THE INHERENT UNRELIABILITY OF SUCH STATISTICS, THIS IS INDICATIVE OF THE ECONOMIC DECLINE OF THE ERITREAN REGION. THE MOST RECENT AVAILABLE STATISTICS COMPARING NOV. 75 - APRIL 76 WITH SAME PERIOD OF THE PREVIOUS YEAR SHOW THAT ERITREAN EXPORTS OF ALL COMMODITIES HAS FALLEN BY 60.2 PERCENT, WHILE IMPORTS HAVE DECLINED BY 60 PERCENT. A FURTHER INDICATION OF THE MAGNITUDE OF THE DOWNTURN IS THE DECLINE IN EXPORT VALUE FROM 1974 TO 1975 OF SIX MAJOR COMMODITIES, EACH OF WHICH HAD A TOTAL EXPORT VALUE OF AT LEAST ET\$5 MILLION IN 1974, AND OF WHICH ERITREA SUPPLIED OVER 50 PERCENT OF THE NATIONAL TOTAL, ACCOUNTS FOR ET\$53 MILLION OF THE NATIONAL DECLINE OF \$79 MILLION. IT SHOULD BE NOTED THAT 1975 STATISTICS REFLECT MUCH OF THE 1974 HARVEST AND ONLY A FRACTION OF THE DECLINES IN 1975 PRODUCTION. COMPLETE 1976 STATISTICS ARE EXPECTED TO SHOW EVEN GREATER DECLINE IN NATIONAL EXPORT IN THESE COMMODITIES, MOST OF WHICH WILL BE OFFSET BY APPRECIABLY HIGHER WORLD MARKET PRICE OF COFFEE, ETHIOPIA'S OVERWHELMINGLY LEADING EXPORT.

7. FUTURE PROSPECTS: ALL OBSERVERS IN ASMARA ANTICIPATE FURTHER DECLINES IN THE ECONOMY OF ERITREA AS THE IMPACT OF THE INSURGENCY BROADENS AND INTENSIFIES. THE STABILIZATION OF THE INSURGENCY INTO A VIRTUAL STANDSTILL HAS HAD SOME MODERATING EFFECT ON PRICES AND MADE POSSIBLE THE MINIMAL FINCTIONING OF SOME INDUSTRIES. LIKEWISE, EPMG CLARIFICATION OF SEVERAL OF THEIR STATED POLICIES HAVE CONTRIBUTED TO A MODEST IMPROVEMENT IN THE BUSINESS SECTOR.

THE PROSPECTS FOR A GENUINE IMPROVEMENT, HOWEVER, HINGE ON SUCCESS IN FINDING A PEACEFUL SOLUTION TO THE INSURGENCY. IN THE REMOTE EVENTUALITY THAT THE CURRENT PEACE INITIATIVES OF THE EPMG BEAR FRUIT IN THE FORM OF A CEASEFIRE, THE IMMEDIATE ECONOMIC UPTURN SHOULD PROVE IMPRESSIVE. COMPLETE RECOVERY WILL TAKE MUCH LONGER AS ERITREA'S FOREIGN MARKETS HAVE BEEN USURPED BY OTHER SUPPLIERS, AND A LARGE INFUSION OF CAPITAL WILL BE NECESSARY TO RESTORE AGRICULTURAL PRODUCTION. WITH ECONOMIC PROBLEMS OCCUPYING A DECIDEDLY LOWER PRIORITY THAN MILITARY CONSIDERATIONS IN ERITREA, FURTHER ECONOMIC DECLINE IS INEVITABLE.

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